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RUEHAC/AMEMBASSY ASUNCION 5455
RUEHMN/AMEMBASSY MONTEVIDEO 6270
RUEHSG/AMEMBASSY SANTIAGO 5532
RUEHPE/AMEMBASSY LIMA 3009
RUEHCV/AMEMBASSY CARACAS 3265
RUEHZP/AMEMBASSY PANAMA 0245
RUEHQT/AMEMBASSY QUITO 1838
RUEHLP/AMEMBASSY LA PAZ 4609
RUEHBO/AMEMBASSY BOGOTA 3766
RHEHNSC/NSC WASHDC
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TAGS: [ETRD](#) [FAIR](#) [EINV](#) [ECON](#) [PGOV](#) [BR](#)
SUBJECT: BRAZIL'S MANAUS FREE TRADE ZONE

¶1. (SBU) Charge, Econoff and Commercial Specialist met with a number of entities in the Manaus Free Zone May 14-16, including Whirlpool Brazil, the Manaus Free Zone Administration (SUFRAMA), the Amazon State Industries Federation (FIEAM) and the Center for Business Development (CIDE), all of which recited a litany of the challenges facing businesses operating in the midst of the Amazon. Their largest complaint was how the Lula Administration's policies ignore their needs and adversely affect future growth in the region, particularly the GOB's emphasis on promoting increased South-South trade instead of nurturing strong trade relationships with the U.S. and Europe. Our Manaus interlocutors warned that in the future Brazil would be disadvantaged unless the government paid greater attention to its principal trading partners. They also highlighted the need for continued new investment, including equipment and training aimed to increasing human capital. All hoped that the scheduled June 1 launch of TAM's direct flight from Manaus to Miami, as well as the COPA flight from Manaus to Los Angeles (via Panama), would increase Manaus' profile with international investors. The enthusiastic welcome USG representatives received suggest there is much to gain from greater engagement in Manaus, a thriving city of 1.8 million in the heart of Brazil's huge Amazon region. End Summary.

Not Business as Usual

¶2. (SBU) Charge and Emboffs traveled to Manaus, capital of the State of Amazonas and the 8th largest city in the country (population 1.8 million), to launch Mission Brazil's fifth Virtual Presence Post (septel) May 14-16. While there, they met with government, business and civic leaders in the area. Representatives from Whirlpool Brazil's Manaus unit told Charge that their biggest challenge is competition from China in the face of the appreciated Real, which makes their air conditioners and microwaves more expensive in the U.S. Even with the tax incentives that companies enjoy in the

Manaus Free Zone where Whirlpool and over 450 companies operate, low-cost Chinese exports to the U.S. force Manaus (and Brazil)-based exporters to the U.S. to become increasingly efficient. For instance, to save on operating costs during low production seasons, the company sends everyone in the production chain on annual leave at the same time. Charge noted to Whirlpool representatives that if Brazil were to reform its restrictive labor codes, such managerial acrobatics would not be necessary.

13. (U) Members of the local AmCham told Charge that Manaus offers a lot to the savvy business hoping to get a foothold in Latin America, through tax incentives and relatively inexpensive labor. However, the workforce's limited technical expertise and the fall of the dollar have made Brazil in general less attractive. Despite recent setbacks, most members of the AmCham continue to report increased earnings.

SUFRAMA Suffers

14. (SBU) The Manaus Free Zone Administration (SUFRAMA) vociferously expressed displeasure with the Lula administration, which it blames for slower than expected investment growth in the region and for preventing it from doing its job. About 450 companies currently operate on 1.7 million hectares in the zone, which SUFRAMA plans to expand by another 5.7 million hectares by 2010. SUFRAMA estimates that 22 American companies are located in the free zone. As the de facto engine of economic growth in the region and the motivating force behind the planned ambitious expansion of the free trade zone, and with responsibilities growing as more companies enter the zone, the Lula administration has made the job of managing the free zone

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more challenging, SUFRAMA officials said. Despite attracting 275 new projects in 2005 (worth USD 4.68 billion) and 70 new projects thus far in 2006 (worth USD 543 million), the zone finds itself chiefly ignored by the current administration, losing federal government investment dollars to Sao Paulo/Santos and even Rio. The run-down Manaus airport handles over 51 cargo flights per week -- the third largest throughput of cargo in Brazil, behind only the two Sao Paulo State airports of Guarulhos and Campinas -- but has had to fight bitterly for money for upgrades. SUFRAMA has asked the Ministry Development, Industry and Foreign Commerce (MDIC), to which it answers directly, for more technicians in order to carry out its expanding mandate, but has not yet received much relief, further stretching the administrator's human resources.

15. (SBU) A strong example of the tense relationship occurred when SUFRAMA chief economist Jose Machado interrupted his presentation to Emboffs and become embroiled in a heated discussion with his supervisor over the phone. He later revealed that his boss was currently in Brasilia arguing with her immediate supervisor, Minister of Development, Industry and Commerce Furlan, in opposition to the rescission of R\$700 million (approximately US\$350 million) of SUFRAMA funds. The loss of these funds has prompted protests from Free Zone denizens; the prominent Free Zone firm Nokia, according to Machado, complained bitterly to the Minister that if SUFRAMA does not use Free Zone maintenance fees to maintain the zone's roads and other infrastructure, then companies should not be obligated to pay the fees.

Wanted: Trained Workers

16. (U) Center for Business development in the Free Zone (CIDE) representatives said their biggest problem is overcoming the perception that Manaus does not have the human resources to handle increased high tech investment. Amazonas State Industrial Federation (FIEAM) spokesmen and SUFRAMA officials stated that lack of human resources is not just a perception but a real problem, given the dire need for worker training on equipment that companies use in the zone. While FIEAM administers an extensive training program to provide Free Zone companies with trained personnel, it acknowledges that there is continuing need for increased training on

the next generation of industrial production equipment that companies hope to acquire.

¶7. (U) In addition to urging increased direct U.S. investment in the technology sector in Manaus, FIEAM proposed that U.S. large equipment manufacturers and technology companies develop a system similar to that of the German company Siemens. A Siemens technician from company headquarters is co-located at a FIEAM facility, administering certification exams for technicians trained by FIEAM on Siemens equipment and helping workers fulfill ongoing training requirements. Since, according to FIEAM reps, needs are greatest for U.S.-based computer and industrial technology, a greater American presence is a logical solution, they said, and one which would benefit the users of U.S. capital equipment. All interlocutors noted a need for more software and hardware engineers and programmers to keep up with increased automation. Even with the free zone companies wholly sponsoring many of the technology programs at the Federal University in Manaus, there is still a deficit in trained hardware and software professionals. Soon, companies would like to take a leap into micro-mechanics in the interest increased production efficiency, but without trained personnel, this will not be possible.

A Coming Boom?

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¶8. (SBU) Despite 2005 industrial growth of almost four times the national average (12.1% versus a Brazilian average of 3.1%), and with a grand total of 275 new projects in 2005 worth USD 4.68 billion and 70 new projects in 2006 worth USD 543 million, Manaus interlocutors feel the city finds itself chiefly ignored by the current administration, losing out (in terms of federal investment dollars) to Sao Paulo/Santos and even Rio. Representatives from FIEAM, SUFRAMA, CIDE and the AMCHAM all argued that the Lula Administration's strategy of concentrating its commercial promotion efforts on South-South trade was flawed as it does not reflect the reality that Brazil's strongest trade relationships were with the U.S. and Europe. In the Manaus free zone alone, 34.75 percent of exports go to the U.S. The Ministry of External Relations' non-pragmatic, ideological foreign policy is working against the trade zone, FIEAM representatives said. They worried that Uruguay and Chile will soon leave Brazil behind.

¶9. (SBU) The one thing the current administration is getting right, according to SUFRAMA Chief Economist Jose Machado, is its effort to attract a semiconductor factory to Brazil. (Note: The GoB is attempting to use its choice of a digital television standard as negotiating leverage to obtain Japanese, Korean or European investment in a multibillion dollar semiconductor factory.) The states of Amazonas and Minas Gerais have large concentrations of niobium, a primary material for the production of semiconductors -- which travel to Estonia and Asia before being re-imported into Brazil in semi-finished form. According to SUFRAMA, Manaus currently consumes 40 percent of the semiconductors used in Brazil and placing a plant there would make economic sense (Comment: Based upon our contacts in support of the ATSC digital television standard, given the spotty investment climate in Brazil the likelihood of this happening is low).

¶10. (U) Local authorities believe that the June 1 initiation of a daily TAM flight flying directly from Manaus to Miami, along with a new Copa Airlines flight, which allows connections through Panama to Los Angeles, provide hope for raising Manaus' profile with potential U.S. and Asian investors. The recently approved airport expansion will increase cargo flight capacity by another 50 per cent, according to authorities.

Comment

¶11. (SBU) The overwhelmingly positive response the Embassy received from the business community in Manaus during this 3-day visit

suggests that there would be high returns for greater USG engagement in Brazil's Amazon region, some of which lies almost as close to Miami as it does to Sao Paulo. As the Mission looks to enhance its coverage of the huge and under-served regions of North and North-Eastern Brazil, we will need to build on the existing commercial ties created by U.S. investment in Manaus in particular. There is also fertile ground for greater public affairs engagement, as perceptions of some of the USG policy priorities, such as trade liberalization, can vary substantially from region to region in this vast nation.

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